

SAMPLE MENTAL HEALTH CENTER

AUDIT REPORT SUPPLEMENT

JUNE 30, 2005

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 230A.16(3) of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client. This sample is prepared based on a non-profit corporation providing mental health services on the basis of an agreement with the County Board of Supervisors as provided for in Chapter 230A.3(2) of the Code of Iowa. Some counties may provide mental health services through the establishment of an elected Board of Trustees pursuant to Chapter 230A.3(1) of the Code of Iowa. This organizational structure may necessitate the consideration of the Governmental Accounting Standards Board's guidance on "The Financial Reporting Entity" and, therefore, other reporting criteria may be applicable.

For the year ended June 30, 2005, guidance on changes and updates is provided in this audit report supplement format. This supplement should be used in conjunction with the fiscal 2004 sample report previously issued by this office.

Audits of community mental health centers should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

Beginning with audits for the fiscal year ended June 30, 2005, references to Chapter 11 of the Code of Iowa in the Independent Auditor's Report (1) on the financial statements and (2) on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards are no longer required. We have determined the Chapter 11 audit requirements are met through the application of generally accepted auditing standards and Government Auditing Standards. This change does NOT affect the audit procedures to be applied in auditing compliance with the requirements of Chapter 11, such as a review of internal control and testing of transactions for compliance. This is only a change in reporting.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles as set forth in the AICPA Industry Audit and Accounting Guide Not-For-Profit Organizations. The format shows the financial statements and the report on internal control and compliance which are necessary to meet the requirements of this office. The detail presented in the financial statements is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the entity feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Depreciation expense has been recognized in these financial statements as recommended by the Industry Audit Guide and Accounting Guide and as required by Financial Accounting Standards Board Statement Number 93.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Center's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac/>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the entity. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Public access to reports issued by the Auditor of State and by CPA firms are available through the internet. To allow this, you should submit an electronic copy of each FY2005 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us. If you are unable to e-mail the file, you may mail a CD containing the PDF file to our office. You may direct any questions about submitting the electronic copy of the audit reports to the above e-mail address.

In accordance with Chapter 230A.16(3) of the Code of Iowa, a copy of the report should also be filed with the administrator of the Iowa Department of Human Services, Mental Health/Developmental Disabilities Division, Hoover Building, 1305 East Walnut, Des Moines, Iowa 50319 and with each County Board of Supervisors supporting the mental health center.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the entity for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the entity and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments and related entities. Together, we are able to provide a significant benefit to all taxpayers in the State.

DAVID A. VAUDT, CPA
Auditor of State

**Sample Mental Health Center
Audit Report Supplement
June 30, 2005**

For the fiscal year ended June 30, 2005, guidance on changes and updates is provided in this 2005 Audit Report Supplement. This supplement should be used in conjunction with the fiscal 2004 sample audit report previously issued by this office.

Independent Auditor's Report (IAR)

1. Replace with the attached report.

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

2. Replace with the attached report.



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Independent Auditor's Report

To the Board of Directors of
Sample Mental Health Center:

We have audited the accompanying statement of financial position of Sample Mental Health Center as of June 30, 2005 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Mental Health Center at June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005 on our consideration of Sample Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors of
Sample Mental Health Center:

We have audited the financial statements of Sample Mental Health Center, Anywhere, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Sample Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of Sample Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

September 20, 2005